

Strategic Roth Planning:

Evaluating Roth IRAs, conversions, and long-term tax implications



Planning for retirement involves more than simply saving—it requires making informed decisions about how and when your retirement assets will be taxed. One of the most common questions investors face is whether Roth or traditional retirement accounts are the better choice, especially as Roth IRAs and Roth conversions continue to grow in popularity.

While there is no universal answer, understanding the tax advantages, contribution rules, conversion strategies, required minimum distribution (RMD) implications, and estate planning benefits of Roth accounts can help you make more confident, tax-efficient decisions. By evaluating current and future tax rates, income needs, and legacy goals, Roth planning can play a powerful role in creating long-term financial flexibility and potentially tax-free income in retirement.

Key takeaways

- Traditional and Roth assets can both benefit your plan in their own respective ways
- There are many variables that should be considered when determining if the Roth option is right for you
- While a Roth can provide income tax flexibility in retirement years, the trade-off is paying tax on the contributions when you make them

Features of Roth accounts

The first thing to understand is why someone would consider Roth contributions or conversions. Generally, when you contribute to a qualified retirement plan (IRA, 401(k), 403(b), etc.) you have the option to contribute on a pre-tax basis (traditional) or after-tax basis (designated as Roth). If you contribute on a traditional basis, your contribution is not included in your income for that year, making it a current tax year saving strategy. However, when you ultimately withdraw those contributions in the future, both the contributions and the appreciation on them are fully taxable at that time. You are simply deferring paying tax on the contributions to a later date. Roth contributions work the opposite way. A Roth contribution is not a current tax year saving strategy since the contributions are still included in your income that year. However, when you ultimately withdraw the Roth contributions, both the contributions and the appreciation are not taxable, so long as they are qualified distributions.

The ability for Roth contributions, and their appreciation, to grow and be withdrawn tax free is the main benefit of using Roth for retirement planning. It can provide income tax flexibility in retirement years. The trade-off for this benefit, of course, is paying tax on the contributions when you make them.

What's New for 2026?

Roth IRA	Maximum contribution of \$7,500	Age 50+ catch-up contribution of \$1,100	Income phase-out for contributions: \$242,000–\$252,000 (married filing joint)
Qualified Employer Plans	Maximum employee deferral of \$24,500	Age 50+ catch-up contribution of \$8,000	Age 60-63 additional catch-up contribution of \$3,250
New Federal Legislation for Qualified Employer Plans	Employers may make Roth matching contributions	Employees earning over \$150,000 must make catch-up contributions on a Roth basis	Distributions are no longer required to be made from a Roth account in an employer plan

Other advantages of using Roth contributions or conversions are that there are no required minimum distributions (RMDs) from Roth designated assets. The account owner never has to take a distribution as long as they are alive. This is not the case for the traditional retirement account assets, which require distributions (and the associated income tax) to begin at a specific age. After the account owner's death, a spousal beneficiary also has no requirement to take distributions from a Roth account. Non-spousal beneficiaries do have distribution requirements after they inherit Roth assets, and the tax-free nature of the assets can make it an immensely beneficial asset to inherit.

Contributions and conversions

There are two ways to get money into a Roth account: a contribution or a conversion. Contributions are made to an individual retirement account (Roth IRA) or to an employer's retirement plan (401(k), 403(B), etc.) that allows them. Since you must have earned income to contribute to these accounts, contributions are made while you are still working. Contributions to a Roth IRA are restricted by income limits, so not everyone can contribute. There are no such income limitations to contributing to an employer's plan on a Roth basis, however.

A Roth conversion, on the other hand, does not require any income to execute. Therefore, it can be done at any time by anyone as a way to move traditional (pre-tax) retirement assets into a Roth account. Once this has been done, the account benefits from all of the advantages that Roth assets

offer. The major factor here, however, is that any funds converted from traditional to Roth are taxable income in the year of the conversion. This is what makes planning a critical component of any Roth conversion strategy.

Variables to consider

As with most financial planning strategies, everyone has their own unique circumstances to consider. The following variables are some of those circumstances that should be reviewed when contemplating Roth contributions and conversions. As this is not a complete list, it is recommended that you consult with your financial and tax advisors prior to implementing any strategies.

- Current vs. future tax rates:** For contributions, do you want to lower your taxable income today (traditional) or receive tax-free distributions in the future (Roth)? Variables that may impact this decision include expected income tax rates in the future compared to those of today, and expected future income (pensions, rents, Social Security, business income, etc.) that would impact your tax situation during retirement. For conversions, do you want to convert and proactively pay income tax on your traditional retirement assets, or do you want your beneficiaries to pay the income tax on the assets they inherit? Consider also how inheriting those assets might impact your beneficiaries' tax situations. A popular strategy for higher income earners is to contribute on a traditional basis while income is high and then convert some of those assets during years when income is lower.

- **Ability, and willingness, to pay the income tax for Roth assets:** While working, paying the income tax on Roth contributions may be easier as you can have taxes withheld from your paycheck. However, for conversions, which can be done at any time and for any sum, there is more income and therefore more tax. In these cases, do you have the liquidity and the appetite to pay the tax associated with a larger Roth conversion? Often, conversion strategies are timed to years where taxable income is lower than usual.
- **Surplus of retirement assets:** This is where a financial plan can really be helpful. A plan that projects your lifestyle through retirement can help to illustrate the potential for surplus retirement assets. If your plan indicates that you may have large pre-tax assets remaining, you may consider converting some of those assets to Roth. Doing so would allow you to avoid RMDs and let it grow tax-free for your heirs. Additionally, your financial plan should help to illustrate whether or not you need all of your RMDs from your traditional retirement assets each year. If not, you might consider converting some of those assets so that your annual distributions, and associated tax, get reduced.
- **Estate planning goals:** Do not overlook your estate planning goals when considering your retirement plan options. Your financial plan can help to project how much would pass to your heirs in a retirement account. The beneficiary will either inherit a taxable traditional asset or a tax-free Roth asset. The ultimate beneficiaries' tax situations should be considered when planning. A Roth asset may be much more advantageous to them than a fully taxable traditional account, especially given the compressed ten-year timeline for non-spousal beneficiaries to fully distribute the account. Considering this, you may find it important to convert some assets to Roth and pre-pay the income tax on your retirement account for your heirs. An estate planning benefit of doing this would be reducing the size of your estate by the amount of income tax that you pay on your conversion without using any of your lifetime exemption amount.

You have choices when it comes to planning for your future. Traditional and Roth assets can both benefit your plan in their own respective ways. Taking all of your specific circumstances and goals into consideration can help you make the best decision.

Data source: www.irs.gov

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